

IPOs: A Bearish Signal for Stocks?

Charles Schwab · Will Daniel · 2026-10-07 · English original

Key takeaways

- IPO booms can raise legitimate concerns because new offerings compete for investor capital and may reflect overly optimistic market sentiment, but they are not automatically bearish for stocks.
- History shows surging IPO activity has sometimes preceded major downturns; yet relying on IPO volume alone as a market-timing signal may be a mistake.
- Investors may get a clearer read on market risk by looking beyond IPO volume to explore factors driving the boom, types of companies going public, and broader economic and financial conditions.

A wave of initial public offerings (IPOs) hitting the market sounds like good news on the surface. It could be interpreted as evidence that private companies are thriving and eager to tap public markets or that executives believe the economic backdrop is favorable.

But IPO booms haven't always been bullish for stocks. Some of the biggest waves of IPO activity have occurred near major market peaks. New IPOs can also increase the supply of shares competing for investor capital, and some view surges in public listings as a sign of investor euphoria, which often occurs late in market cycles.

None of these interpretations are infallible, however. While there are reasons to view an IPO boom as a bearish signal for markets, history shows the reality is much more nuanced, and a thriving IPO market does not automatically mean stocks are at a peak.

What history says about IPO booms

Recent history is one main reason many investors view IPO booms as a warning sign.

During the dot-com bubble, for example, the number of U.S. IPOs surged as tech startups sought to take advantage of investors' internet enthusiasm. In 1999 and 2000, there were nearly 1,000 U.S. IPOs, according to the Securities and Exchange Commission (SEC). Then the bubble burst, and in 2001, there were only 144 new filings. This pattern was repeated in the years surrounding the Great Recession and during the COVID era.

As the end of 2026 nears, some investors fear history is repeating itself. The IPO market has rebounded over the past few years, and although this year's number of new offerings remains close to historical norms, forecasters expect total proceeds to hit a record thanks to a few high-profile listings.

Total number of IPOs and total IPO proceeds by year

Source: Securities and Exchange Commission

But while recent history seemingly suggests an IPO boom is a bearish signal for markets, investors who look back a bit further may notice this relationship doesn't always hold.

For years prior to the dot-com bust, the IPO market thrived. In fact, the two biggest years in terms of the

sheer number of IPOs during that era were 1993 and 1996. Investors who attempted to use the IPO market as a timing tool back then would have missed out on the stock market's subsequent surge.

How IPOs directly impact markets

The main way a wave of IPOs can directly pressure markets is through supply and demand dynamics. Every IPO creates a new supply of shares for markets to absorb, and there's only a finite pool of investor capital available. If investors sell existing holdings to purchase IPO shares, that selling pressure can create a headwind for equity markets or other asset classes.

Many investors understand this and, without investigating the dynamics more thoroughly, believe an IPO boom must be a bearish signal for markets. However, if investors have enough available cash to buy IPO shares, markets can more easily absorb them with fewer detrimental effects.

This means the impact of an IPO boom can depend on broader economic and financial conditions. When unemployment is low, wages are rising, and interest rates aren't too high, investors may have more capital to absorb new IPO shares. But when conditions are less favorable, a surge in IPOs could create more supply than markets can comfortably deal with.

IPOs as a sentiment indicator

While IPOs can weigh on markets through supply and demand dynamics, many investors view IPO booms as bearish signals because of what they imply about investor sentiment.

More private companies tend to go public during strong bull markets when they believe they can capitalize on rising valuations and investors' fear of missing out. As a result, when the number of IPOs hitting the market spikes, some view it as a sign of investor euphoria. And as the famed investor Sir John Templeton once put it: "Bull markets are born on pessimism, grow on skepticism, mature on optimism, and die on euphoria."

Templeton's point was that during periods of market euphoria, investors can overlook risks, leading valuations to become increasingly detached from fundamentals. Additionally, as optimism becomes widespread and more investors jump into markets, there may be less fresh capital available to keep pushing prices higher.

During periods of market euphoria, highly speculative or unprofitable companies also often find more buyers.

Once again, the dot-com era offers a prime example. In 1990, around the start of the internet boom, 94% of companies going public were profitable, according to a study by the University of Florida. By 1996, that figure fell to 47%, and in 1999 and 2000, just 14% of IPO companies had positive earnings. In other words, right before the dot-com bubble burst, the companies investors were willing to fund were becoming increasingly speculative.

There's a lesson in this for investors who believe a surging IPO market is a bearish signal. When the number of private companies going public spikes, it may be a warning sign. But it's important to track the fundamentals of these companies as well. A raft of speculative or unprofitable companies going public may serve as a better indicator of investor euphoria and therefore a potential market correction.

Bottom line: Not all IPO booms are created equal

A surge in IPOs can be a warning sign for stocks, but context matters. New offerings can weigh on markets by competing for investor capital, while a flood of companies racing to go public can signal excessive investor optimism. However, neither necessarily means stocks are headed for a downturn.

History also shows that using the sheer number of IPOs as a market timing tool can be a costly mistake. Investors may be better served by looking at what's driving an IPO boom, the types of companies going public, and broader economic and financial conditions. IPOs may offer clues about investor sentiment and the level of speculative excess in markets, but they aren't always a bearish signal.

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